

Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

Cow List

Livestock and Meat Situation

ECONOMICS, STATISTICS,
AND COOPERATIVES SERVICE

LMS-223 Suppl.

U.S. Department of
Agriculture

NOVEMBER
1978

1.941
88L752

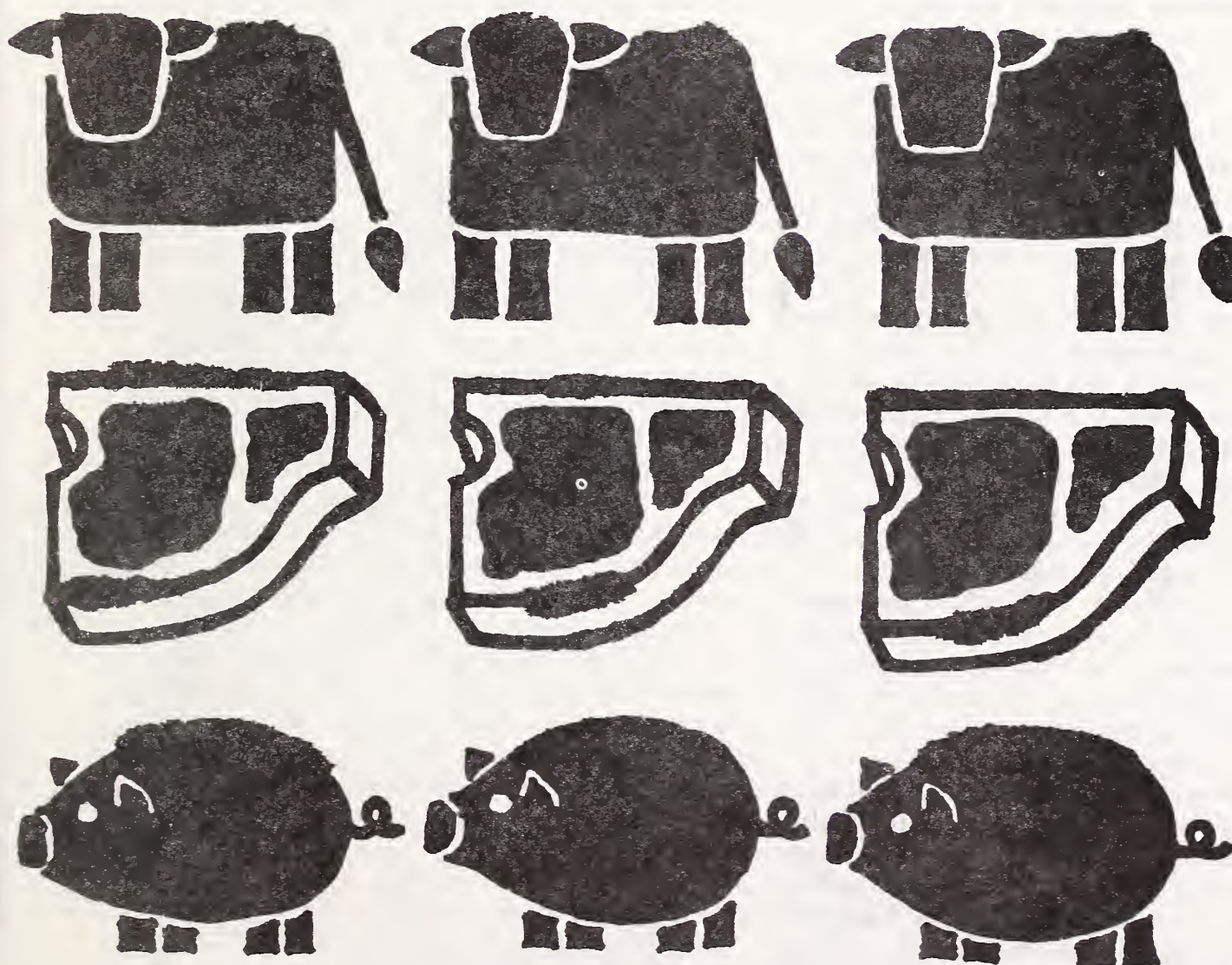
Reserve

DEC

6 78

Approved by the
World Food and
Agricultural Outlook
and Situation Board

OUTLINE SERIES



LIVESTOCK AND MEAT SITUATION

by James Nix

Some dramatic events have occurred in the livestock and meat industries this year. Beef production has declined about as expected, but pork production has not increased nearly as much as forecast a year ago. Earlier this year both live animal and retail meat prices rose sharply. By May they had reached unexpectedly high levels. On the strength of the higher prices for red meats, broiler prices rose and production expanded rapidly. A stronger consumer demand for meat than observed last year supported these higher prices. As we grasped for explanations of this year's very strong demand for meat, thoughts returned to the many discussions that centered around the apparent weak demand for beef in 1977.

For 1978, total red meat production is expected to decline about 3 percent, or 1.1 billion pounds from the 1977 level of 38.7 billion pounds. Much of the decline in red meat production is being offset by larger supplies of poultry. But combined red meat and poultry production will still be only about 400 million pounds, or 1 percent less than in 1977. Compared with 1977, this year's meat production has consisted of considerably more fed beef and poultry, a little more pork, and much less nonfed beef, veal, and lamb and mutton.

The setting for next year is much different now than it was last fall. Prospects for 1979 point to a continued strong demand for meat and lower supplies of red meats. This suggests a rather optimistic outlook for livestock producers since livestock prices are expected to rise. On the other hand, prospects also portray continued increases in retail meat prices, especially for beef cuts, in 1979.

Livestock Production Costs

Record large corn and soybean crops are being harvested and will

keep feed supplies ample. Corn prices are expected to inch up from their early fall 1978 level and the farm price for the 1978/79 crop year may average \$1.95 to \$2.15 per bushel.

Despite the record large soybean crop being harvested this year, soybean meal prices are running above year-earlier levels. With a continuing strong domestic and foreign demand, soybean meal prices are expected to remain above year-earlier levels through most of 1979. However, as we move into 1979, both grain and protein supplement prices will be greatly influenced by prospects for next year's crops and global demand.

Feeder animal prices are expected to remain near or above their year-earlier level during 1979. Feeder cattle prices will continue to rise and add to the cost of cattle feeders. Feeder pig prices will probably remain relatively high, particularly during the first half of 1979.

Most other input prices will also rise in 1979. New minimum wage rates and higher social security withholdings will add to labor costs next year. Interest rates are rising and interest costs in 1979 will probably be up from this year. Machinery and building costs will also rise in 1979, as will fuels and energy. All in all, increases in most input costs other than feed and feeder cattle will be closely tied to the rate of inflation.

Cattle

Some major changes affecting the cattle business have occurred this year--many related to the cattle cycle. But there have been other factors entering the picture and impacting on cattle prices. These other factors have ranged from developments concerning the supplies of competing meats to the general concern over higher retail beef prices.

Inventory Continues to Decline

The total number of cattle and calves on U.S. farms has been sharply reduced from the record-high 132 million head of 1975. The inventory has declined again this year and will probably total around 111 million head on January 1, 1979.

The cow inventory has also been cut back sharply, from a high of 56.9 million head in 1975 to 49.7 million head at the beginning of this year. The apparent movement of replacement heifers into the beef cow herd has been slow this year. This, combined with a continued high level of cow slaughter through much of the year, will result in a decline in the cow herd this year. It is likely that this year's reduction will be around 2 million head, leaving the cow inventory about 16 percent below the 1975 level. This smaller cow herd suggests that the 1979 calf crop will be smaller than this year's estimated 44.1 million head.

In 1978, the calf crop will be almost as large as the combined cattle and calf slaughter which will be about 44.5 million head. It's very likely that the 1979 calf crop could be 42 to 43 million head and exceed the combined cattle and calf slaughter for the first time since 1975.

Holding of heifers for herd replacements has been slow through most of 1978. But with the higher feeder cattle prices that producers are receiving, it's likely that they will begin holding more heifers for herd replacements. Retention of additional heifers will probably gain momentum during 1979, but many of these will not calve before 1980.

The improved feeder cattle prices are also likely to result in producers culling fewer cows next year. Cow slaughter during 1979 may drop 20 to 25 percent below the 1978 level. This may be sufficient to halt the decline in the cow herd. So, the January 1, 1980 cow herd could be near, or slightly above, the beginning 1979 level.

The decline in the total inventory is expected to be slowed considerably, if not halted, during 1979. Combined cattle and calf slaughter may drop to the 38- to 40-million-head level next year, down 10 to 15 percent from 1978. Then, depending on the size of the calf crop, death losses, and net imports, the total inventory at the beginning of 1980 could once again be around 111 million head.

Feeder Cattle Supplies Down;

Prices Up

The massive liquidation of the cattle herd since 1975 has brought a dwindling supply of feeder cattle. On July 1 of this year, there were about 10 percent fewer feeder cattle outside feedlots than a year earlier.

The expected smaller calf crop for 1979 suggests that the feeder cattle supply will continue to shrink. As herd rebuilding gets underway and more heifers are held for replacements, available feeder cattle supplies will be further reduced. But there are also a couple of offsetting factors. Both calf slaughter and nonfed steer and heifer slaughter are dropping sharply and are expected to continue to do so in 1979. This will help supplement the shrinking supply of feeder cattle as fewer animals will be going to slaughter before spending some time in feedlots.

The smaller supply of feeder cattle, combined with a good demand for them by feedlot operators, has pushed prices sharply higher. Choice yearling feeder steers at Kansas City will average in the upper-\$50's this year. Further rises are in prospect for 1979, but the increase is not expected to be nearly as large as in 1978. For 1979, Choice yearling feeder steers will probably average in the mid- to upper-\$60-per-cwt. range.

These higher feeder cattle prices are improving the financial condition of cow-calf producers. With the declining supply of feeder cattle, cow-calf producers are getting in the driver's seat where they are likely to remain for a few years.

Beef Production To Continue

To Decline

Despite a higher level of fed cattle slaughter this year, beef production will decline about 4 percent from the 1977 level. All of the decline will come from nonfed beef.

Fed steer and heifer slaughter in 1978 will be up about 7 percent from last year. However, this will not be enough to offset a decline of about 50 percent in steers and heifers directly off grass and cow slaughter which will be down about 13 percent.

The level of placements of cattle on feed has been very large during 1978. As of October 1, 1978, there were 16 percent more cattle on feed in the 23 major cattle feeding States. Placements are expected to continue near or above year-earlier levels through the first half of 1979. This would keep fed cattle slaughter above year-earlier levels through most of 1979.

During 1979, fed steer and heifer slaughter may rise 2 to 4 percent above the 1978 level. But the slaughter of nonfed steers and heifers will probably decline by one-half to two-thirds as these animals continue to be bid out of the reach of packers. Cow slaughter may be down 20 to 25 percent. These likely developments suggest much lower supplies of lean beef next year.

Average dressed weights will rise in 1979 as fed cattle account for a greater percentage of the slaughter and as feeders feed to heavier weights. Thus, beef production may decline only 4 to 6 percent while total slaughter drops 6 to 8 percent.

Further declines in beef production are in store for 1980. As herd rebuilding gets underway, heifers will go into the breeding herd rather than to slaughter. This will further restrict beef production. Combined with less production potential caused by the lower cattle inventory, beef production in 1980 may decline as much, if not more, than it will in 1979.

Fed Cattle Prices To Rise

Prices for fed cattle have increased substantially this year and further increases are expected in 1979. Choice 900-1,100 pound steers at Omaha will probably average about \$52 per cwt. this year, up almost 30 percent from the 1977 average.

In 1979, fed cattle prices are expected to continue to rise. For the year, they will probably average in the upper-\$50's, or perhaps around \$60. The rise in fed cattle prices, however, will be highly dependent on supplies of competing meats and consumer demand for meats.

The lower supplies of beef in prospect for 1980 suggests that there will continue to be upward pressure on cattle prices. Cattle prices are expected to rise again in 1980, but the amount of the rise will again be influenced by consumer demand and supplies of competing meats.

Cattle Feeders' Profit Margins

To Be Slim

Profit margins on many of the fed cattle sold this year have been good. Large feed supplies have helped keep feed costs down. Also, many of the fed cattle sold during 1978 were put in feedlots before feeder cattle prices increased very much. This helped cattle feeders turn a good profit when fed cattle prices rose.

But now feeder cattle prices have increased substantially, and this is squeezing profits on cattle being marketed in late 1978. Unless fed cattle prices rise more than currently expected, profit margins in 1979 will probably be very slim given the expected level of feeder prices. In fact, losses are likely at times.

Hogs

Accurate projections of the level of pork production and prices have proven to be a difficult task for most analysts the past few years. Weather, which has traditionally been regarded as the cause of large variations in crop production, was a significant factor determining the level of pork production the last 2 years. The

incidence of disease problems has also been greater, and some of this may be related to the severely cold winters.

Several other factors have impacted on pork production. Among these are health concerns, environmental concerns, and changes in the structural characteristics of the industry. These factors may have a more lasting impact on pork production than will weather-related problems, or perhaps disease problems.

Structural Changes

In recent years, many changes have occurred in the structure of the hog production industry, and more changes are probable in the future. Many of these changes have no doubt influenced the outcome of decisions related to hog production.

Hog production is located in about the same areas as it has been for several decades. There have been some small interregional shifts, but no dominant changes have occurred. About two-thirds of the pork production comes from the Corn Belt-Lake States. Iowa and Illinois, the top hog-producing States, account for over one-third of U.S. production.

There has been a significant decline in the number of farms reporting hogs and pigs on hand during the past 4 decades. Census of Agriculture data show that in 1940 about 3.8 million farms, or 62 percent of all farms, had hogs and pigs. By 1974, the number of farms with hogs and pigs had declined by 88 percent and only 470,000 farms, or 20 percent of all farms, had hogs and pigs.

There has also been a significant shift in the size of the hog enterprise. In 1964, about 23 percent of the hogs and pigs sold came from farms with sales of 1 to 99 head per year. That same year, only 8 percent of the hogs and pigs sold came from farms with annual sales of 1,000 head and over. However, a dramatic change had taken place by 1974. By this time, the small size group accounted for only 11 percent of the sales while the

large size group accounted for 25 percent of the sales.

These data show a definite shift toward larger enterprises. This shift is probably continuing and enterprises with sales much above 1,000 head per year are gaining in importance. Decisions for expanding or contracting these larger enterprises are much different than they are for the small enterprises. Capital investment for these large enterprises is substantial. Thus, once they are built they are likely to operate close to full capacity in order to spread fixed costs.

There is also evidence that points to less seasonality in pork production now than in past years. In 1950, almost one-half of the sow farrowings occurred in the March-May period and about 10 percent occurred in the December-February period. But in 1977, roughly one-fourth of the farrowings occurred in each of these periods. There have been some changes in the other 2 periods, but they have been much less dramatic and in 1977 each quarter of the year had about one-fourth of the farrowings.

Pork Production Expanding Slowly

Pork production is not expanding as rapidly as most analysts anticipated a year ago, and producer intentions do not suggest a very rapid rise through mid-1979. Pork producers appear to be very conservative in any efforts to expand output. This seems to be especially true considering the size of this year's corn crop and the level of hog prices through most of 1978.

For 1978, pork production will probably rise less than 1 percent above the year-earlier level. There has been less seasonality in production during 1978 than in the past, reflecting the more even distribution of farrowings.

The September 1, 1978 Hogs and Pigs report showed that the inventory of hogs and pigs weighing under 60 pounds was down 2 percent from a year

earlier. These hogs will move to market in early 1979 and make up the majority of first-quarter slaughter. While first-quarter 1979 slaughter may be near or slightly below a year earlier, production may be up slightly as a result of feeding to heavier weights. However, weather and incidence of disease can once again affect the level of slaughter.

On September 1, producer intentions were to farrow 3 percent more sows in both the September-November and December-February periods. These intentions seem conservative based on hog-feed price relationships, but farrowings for the past year have also seemed conservative.

Pigs farrowed in the September-November and December-February periods will account for most of the second- and third-quarter 1979 slaughter. Even with the 3-percent increases in reported intentions, slaughter in these 2 quarters could be up more if the winter is milder, the number of pigs per litter larger, and death losses less than a year earlier.

It is likely that the spring-quarter pig crop, which will account for fourth-quarter production, will be up 6 percent or more. This is expected because hog prices will be high and feed costs low during the period when breeding decisions are made. Also, producers will be more assured of large grain supplies.

Based on the September 1 Hogs and Pigs report, it is anticipated that first-half 1979 pork production will be 2 to 4 percent above the year earlier. Production during the second half of the year may be up 6 to 8 percent. This could result in a year-to-year increase of 4 to 6 percent in pork production during 1979.

Hog Prices To Remain Strong

Slaughter hog prices have generally been in the upper-\$40's most of this year. Barrows and gilts at 7 markets will probably average \$48 to \$49 per cwt. in 1978, compared to \$41.07 in 1977.

Even though pork production is expected to be larger in 1979, hog prices will probably average near or slightly above the 1978 level. Rising consumer incomes and reduced beef supplies are expected to help support this level of hog prices. However, there will be more competition from broilers which will temper hog prices.

Barrow and gilt prices may average near \$50 per cwt. through much of next year. If production expands seasonally in the fourth quarter of 1979 as expected, prices may drop to the mid \$40's late in the year.

This hog price outlook, combined with prospects for relatively low feed costs, will probably mean that most farrow-to-finish and feeder-pig producers will show a profit in 1979. This may not be so for the feeder-pig finisher who has to buy feeder pigs.

If production and prices develop in 1979 as expected, farrowings in the last half of the year would probably rise above year-earlier levels. This would suggest pork production would continue to rise into 1980.

Other Red Meats and Poultry

During 1978, calf slaughter has been declining sharply. It will probably be 23 to 25 percent below the 1977 level, but commercial calf slaughter will still total about 4.2 million head. More of the calves are going into feedlots for additional feeding rather than to slaughter. This trend is expected to continue in 1979 when calf slaughter could be cut to about one-half the 1978 level. The large grain crops and relatively low feed costs will keep the feedlot demand for calves high. Feedlots will probably bid many calves away from packers next year.

Lamb and mutton production is declining again during 1978. In fact, this year's production may be 12 percent or more below the 1977 level. Declines in production during 1978 have been large considering the size of the 1977 lamb crop and the January 1, 1978 inventory. The 1978 inventory

and slaughter statistics suggest that there might have been additional holding of ewes for breeding during 1978. If in fact this has happened, lamb and mutton production during 1979 could be near, or perhaps slightly above, the 1978 level.

Broiler production has increased sharply during 1978 and will be about 7 percent above the 1977 level. Higher prices for red meats have helped hold broiler prices up even with the larger supplies. Broiler producers' profit margins have been good and this will likely result in further increases in 1979, perhaps in the range of 8 to 10 percent. Turkey production has also increased during 1978. Good profit margins for turkey producers are expected to result in further increases in turkey production during 1979, perhaps 10 percent or more. These larger supplies of poultry products in 1979 will again compete strongly with red meats for the consumer dollar.

Consumption and Retail Prices

Per capita consumption of red meats (carcass weight) and poultry will total about 243 pounds in 1978, down about 4 pounds from 1977. Per capita beef consumption will be down almost 6 pounds, while pork consumption will be at about the same level as in 1977. Combined with declines in veal and lamb and mutton consumption, total per capita red meat consumption in 1978 will total about 186 pounds, down almost 7 pounds from 1977. On the other hand, per capita consumption of poultry will be up almost 3 pounds.

Supported by strong consumer demand, retail meat prices rose sharply during 1978. The Bureau of Labor Statistics' (BLS) beef and veal price index (1967=100) will average about 200 for the year, up about 23 percent from 1977. The BLS pork price index also rose and will average about

12 percent above 1977. For all red meats, a year-to-year increase of about 18 percent in retail prices is expected during 1978.

In 1979, per capita beef consumption will probably drop 5 to 9 pounds below the 1978 level. Supported by an expected continued strong consumer demand, retail beef prices will probably rise 10 to 14 percent above the 1978 level. Supplies of lean beef will be much lower next year, and this could cause prices for hamburger and manufacturing grade beef to rise more than for cuts such as Choice steaks.

Per capita consumption of pork is expected to be larger in 1979, up perhaps 1 to 4 pounds from the 1978 level. Even with a higher level of pork consumption, it is likely that retail pork prices will rise above the 1978 level. This price rise could be in the range of 2 to 5 percent depending on the actual supply of pork and competing meats.

Veal consumption will probably decline sharply again in 1979 and lamb and mutton consumption may hold near the 1978 level.

This sums up to a per capita red meat consumption of 176 to 184 pounds in 1979, 2 to 10 pounds below the 1978 level. This will likely be accompanied by a rise of 6 to 10 percent in the BLS total meat price index.

Per capita consumption of poultry will be increasing next year, partially offsetting the drop in red meat consumption. The total per capita consumption of red meats and poultry will probably be between 236 and 247 pounds in 1979, compared to about 243 pounds in 1978.

On balance, consumers will still have a large selection of meats from which to choose. And while per capita consumption will be down a little from the last few years, it will still be high relative to historical levels.

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

To stop mailing ☐ or to change your
address ☐ send this sheet with label
intact, showing new address, to Informa-
tion, Staff, ESCS, U.S. Dept. of Agricul-
ture, Rm. 0054 South Building, 14th &
Independence Ave. S.W., Wash., D.C.
20250.

LMS-223 Suppl. NOVEMBER 1978

4775 USNACU A422 18004 0001
USDA INAL CURRENT SERIAL KECU-
RD
BELTSVILLE MD 20012

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101
FIRST CLASS

